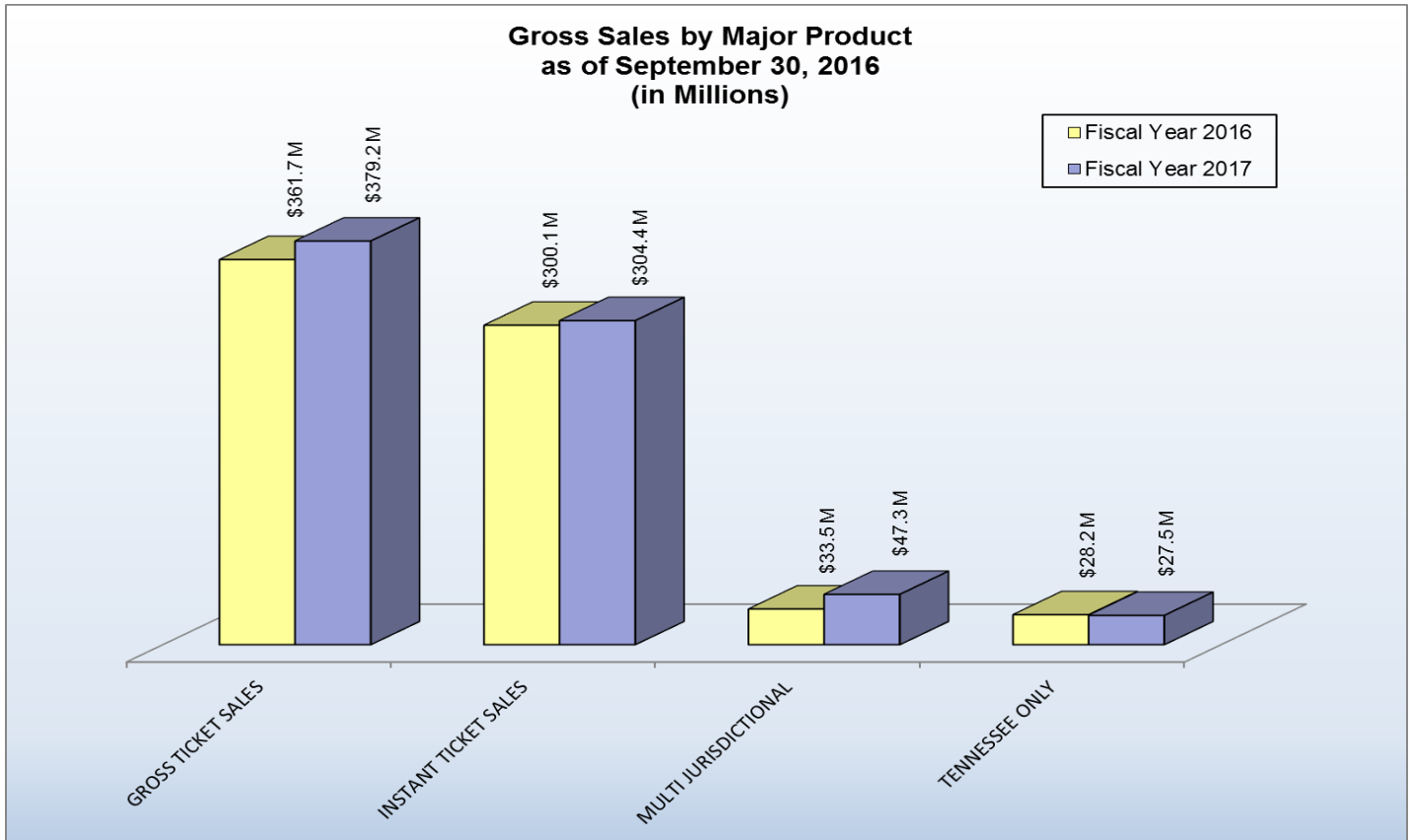


**TENNESSEE EDUCATION LOTTERY CORPORATION**  
**Funding Board**  
**November 17, 2016**

**ESTIMATION OF**  
**TOTAL AND NET LOTTERY PROCEEDS**  
**FOR FISCAL YEARS ENDING**  
**JUNE 30, 2017, 2018, 2019, 2020 AND 2021**

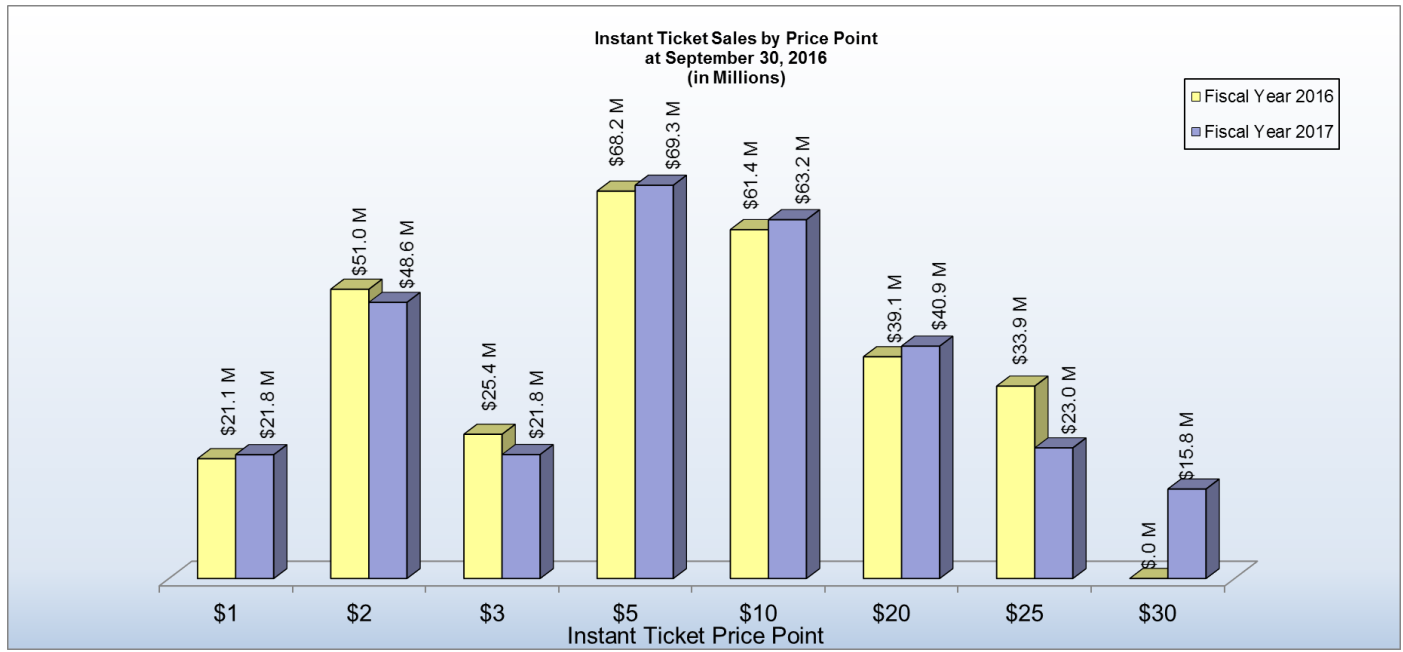
**TENNESSEE EDUCATION LOTTERY CORPORATION**  
**ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

	As of 9/30/2016 (in millions)	As of 9/30/2015 (in millions)
Gross Sales	\$379	\$361
Weekly Average Sales	\$28.9	\$27.5
<b>BY MAJOR PRODUCT:</b>		
INSTANT GAMES	\$304	\$300
MULTIJURISDICTIONAL DRAW GAMES		
Powerball	28	22
Mega Millions	13	8
Hot Lotto	3	3
Cash 4 Life	3	-
	\$47	\$33
TENNESSEE ONLY DRAW GAMES		
Cash 3	15	15
Cash 4	9	8
Tennessee Cash	4	5
	\$28	\$28



**TENNESSEE EDUCATION LOTTERY CORPORATION  
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

	<b>As of 9/30/2016 (in millions)</b>	<b>FY 2017 Projected Sales Range (in millions)</b>
<b><i>INSTANT GAMES</i></b>	\$ 304.4	\$1,305 - \$1,331



- *Instant tickets* are 80.3% of our product mix at September 30, 2016.
- *Instant ticket sales* were \$304.4 million or \$23.2 million per week thru September 30, 2016 compared to \$300 million or \$22.8 million per week the prior year, representing a 1.5% increase in instant ticket sales year over year.
- The current percentage of sales of TEL's *Instant ticket* products are primarily related to player preferences. In February 2016, TEL launched a \$30 price point ticket, Ultimate Millions which continues to be a favorite of players and driving first quarter sales. We have seen a slight increase in the \$5 and \$10 price points related to increased sales of the Jumbo Bucks games at these price points.
- Fiscal year 2017 *Instant tickets* are projected at \$1.305 billion to \$1.331 billion.
- TEL anticipates launching approximately 51 games in fiscal year 2017. The launch schedule will include similar themed games and families of games to maximize marketing and promotion efforts, including up to four special prints that will enhance visibility and playability options for these games.
- *Instant ticket* prize expense is projected at 67.4% to 67.8% for fiscal year 2017.

**TENNESSEE EDUCATION LOTTERY CORPORATION**  
**ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

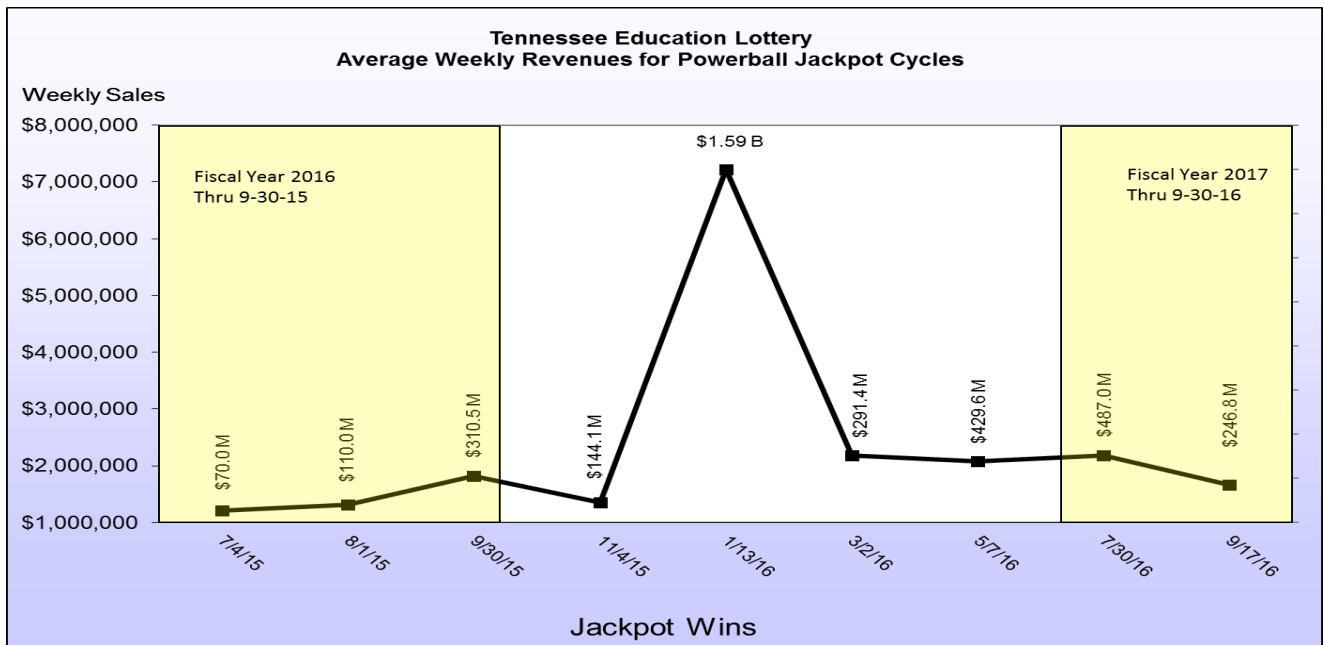
***MULTI-JURISDICTIONAL GAMES***

Multi-jurisdictional games, *Powerball*, *Mega Millions*, *Hot Lotto* and *Cash 4 Life* were \$47.2 million at September 30, 2016 compared to \$33.5 million in the prior year.

Multi-jurisdictional sales, with the exception of Cash 4 Life, are directly impacted by the size of the games' jackpots.

	<b>As of 9/30/2016 (in millions)</b>	<b>FY 2017 Projected Sales Range (in millions)</b>
<b><i>POWERBALL</i></b>	\$28.3	\$95 - \$108

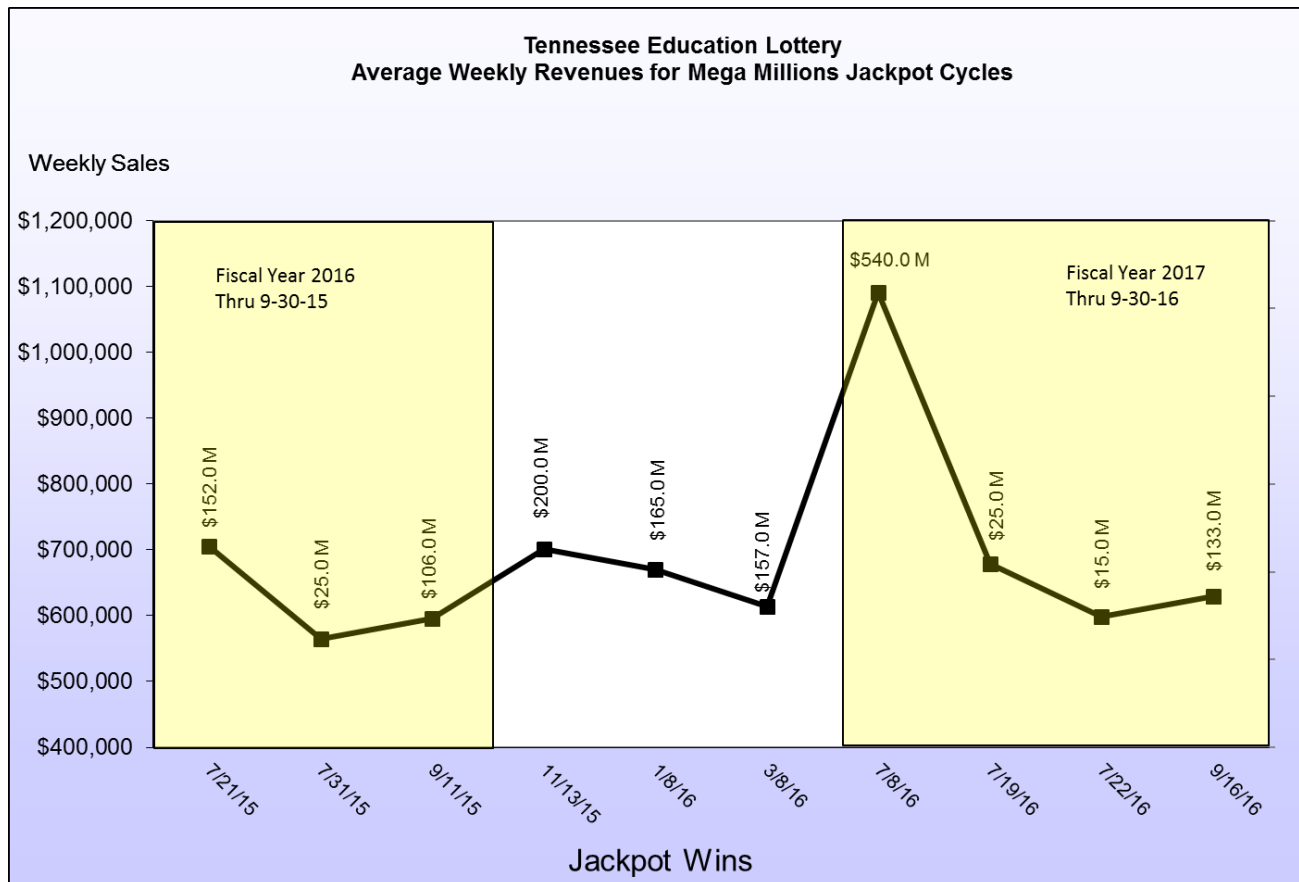
- *Powerball* is currently sold in 44 states, plus the District of Columbia, Puerto Rico and U.S. Virgin Islands.
- In October 2015, a game matrix change was implemented with the expectations of creating larger jackpot cycles.
- TEL's *Powerball* sales were \$28.3 million compared to the prior year's sales of \$21.9 million for the first quarter. The driver of the increased *Powerball* sales is directly related to a \$487 million dollar jackpot won on July 31, 2016.
- Our fiscal year 2017 sales range includes 2 additional jackpot cycles reaching the \$500+ million level.



**TENNESSEE EDUCATION LOTTERY CORPORATION**  
**ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

	As of 9/30/2016 (in millions)	FY 2017 Projected Sales Range (in millions)
<b>MEGA MILLIONS</b>	\$13.2	\$37 - \$40

- *Mega Millions* is currently sold in 44 states, plus the District of Columbia and U.S. Virgin Islands.
- *Mega Millions* sales are up 59% at September 30, 2016. On July 8, 2016, *Mega Millions* experienced a jackpot cycle reaching \$540 million. This jackpot cycle drove the increased sales in the first quarter.
- *Mega Millions* weekly sales are projected at \$640 thousand for the full fiscal year 2017 consistent with prior year sales trends.
- TEL projects the *Mega Millions* product to generate one or two jackpots of at least \$250 million to help reach the \$37 to \$40 million fiscal year 2017 sales range.



**TENNESSEE EDUCATION LOTTERY CORPORATION  
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

	<b>As of 9/30/2016 <u>(in millions)</u></b>	<b>FY 2017 Projected Sales Range <u>(in millions)</u></b>
<b><i>HOT LOTTO</i></b>	\$2.6	\$10 - \$11.5

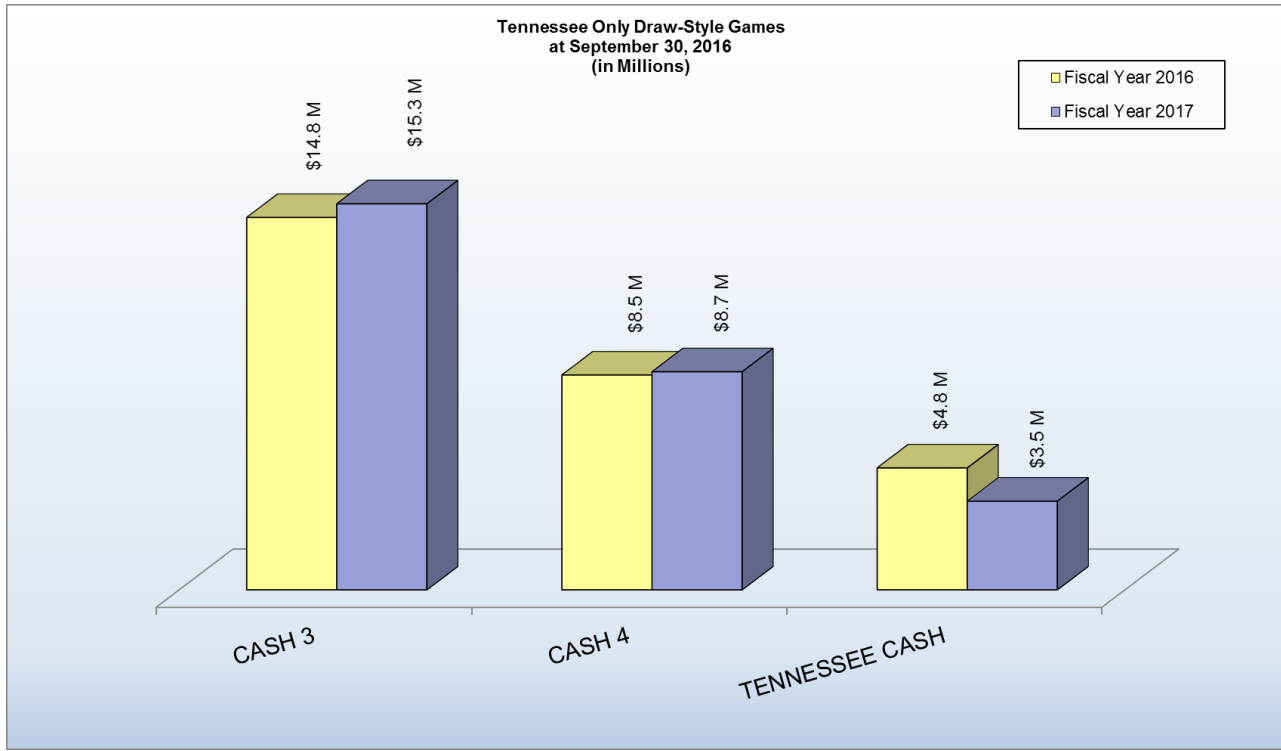
- *Hot Lotto* is currently sold in 15 jurisdictions.
- *Hot Lotto*, features an all cash (not annuitized) jackpot starting at \$1 million, with expected jackpot cycles between \$5 and \$6 Million.
- TEL expects normal jackpot trending and a consistent revenue stream between \$250 to \$290 thousand weekly for the rest of fiscal year 2017.

	<b>As of 9/30/2016 <u>(in millions)</u></b>	<b>FY 2017 Projected Sales Range <u>(in millions)</u></b>
<b><i>CASH 4 LIFE</i></b>	\$3.0	\$11.9 - \$12.9

- *Cash 4 Life* is currently sold in 8 jurisdictions.
- The game launched November 1, 2015 in Tennessee, at a \$2 price point.
- The game provides the only drawing-style game with two opportunities for a lifetime prize:
  - \* Top Prize is \$1,000 dollars a day for life!
  - \* Second Prize is \$1,000 dollars a week for life!
- The fiscal year 2017 projected sales range is between \$12 - \$13 million.

**TENNESSEE EDUCATION LOTTERY CORPORATION  
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

	<b>As of 9/30/2016 (in millions)</b>	<b>FY 2017 Projected Sales Range (in millions)</b>
<b><i>TENNESSEE ONLY DRAWING-STYLE GAMES</i></b>	\$27.5	\$113 -\$118



At September 30, 2016, sales for this product category were \$27.5 million compared to the prior period's \$28.1 million, down primarily due to the lack of jackpots related to Tennessee Cash.

#### **Cash 3 and Cash 4**

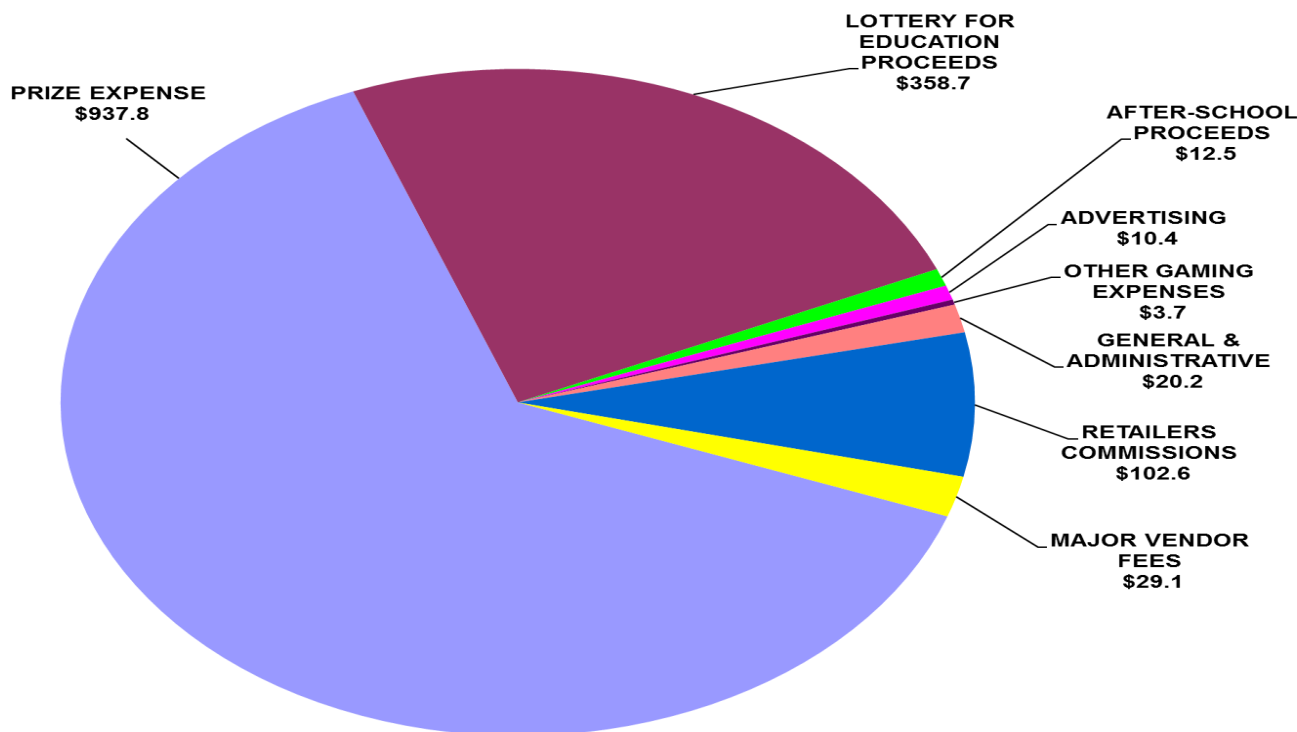
- *Cash 3* and *Cash 4* games are drawn three (3) times daily, six (6) days a week, and once on Sunday.
- In the first quarter of fiscal year 2017, TEL has seen a net increase of 2.9% for the *Cash 3* and *Cash 4* products.
- TEL is projecting sales in the range of \$98 and \$101 million for the full fiscal year.

#### **Tennessee Cash**

- *Tennessee Cash* is a drawing-style cash jackpot game available only in Tennessee.
- Sales are driven primarily by the cash jackpots, with an average jackpot cycle of \$600 to \$700 thousand.
- TEL projects sales in fiscal year 2017 to be between \$15 and \$17 million.

**TENNESSEE EDUCATION LOTTERY CORPORATION  
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

**FISCAL YEAR 2017 BUDGETED EXPENSES  
(in millions)**



**Direct Gaming-Related Expenses**

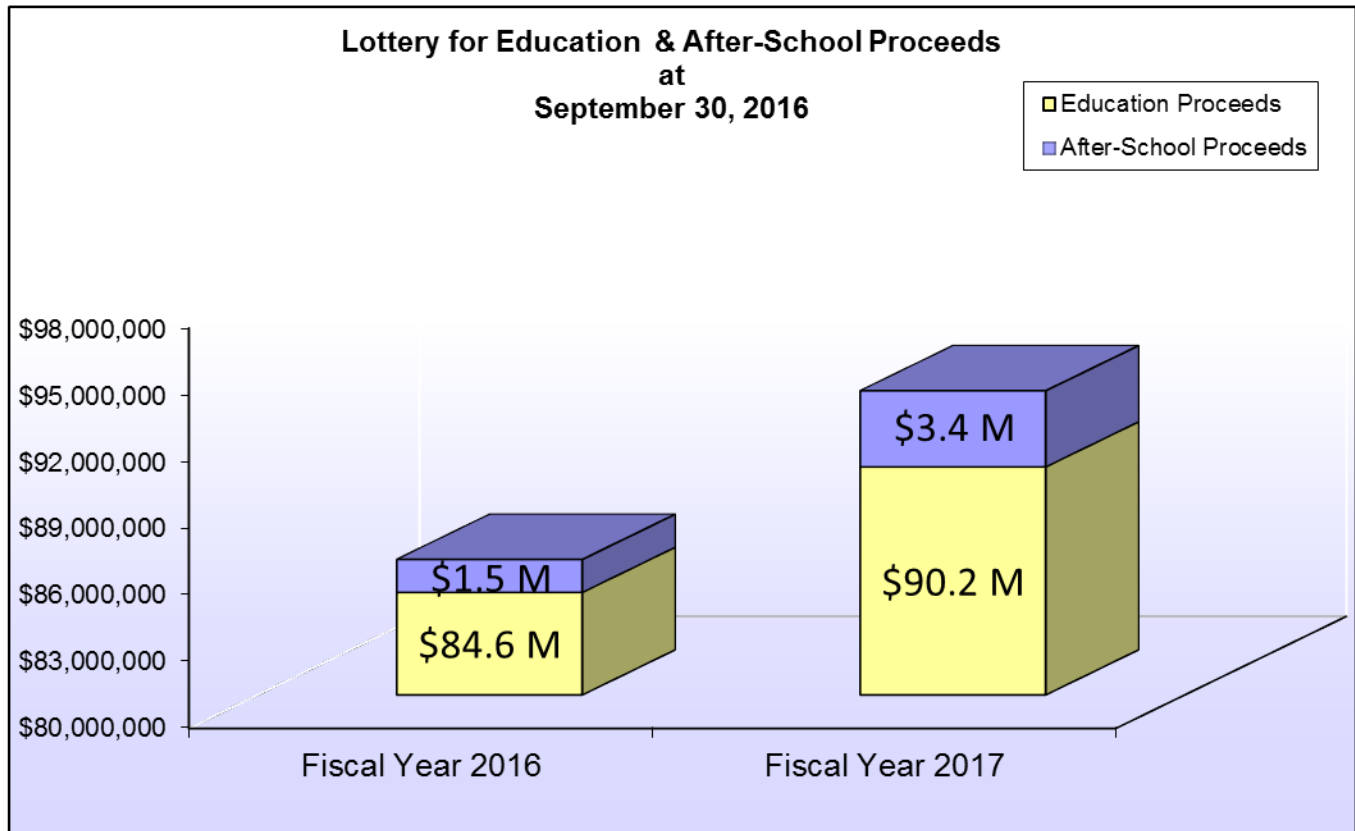
- Aggregate Prize Expense for all Games is projected at **59.8%** of Total Revenues.
- Aggregate Prize Expense for Instant Games is projected at **67.5%** of Total Revenues.
- Aggregate Prize Expense for Drawing-style Games is projected at **50.0%** of Total Revenues.
- Retailer sales commissions are **6.5%** of Gross Sales, with additional commissions for selling winning drawing-style tickets of \$1 million or more and cashing tickets for *Cash 3* and *Cash 4*.
- Major gaming vendors' fees are a percentage of sales per the terms of each contract. In fiscal year 2015, TEL negotiated lower fees of 1.199% for IGT and .8998% for Sci Games as a result of a Request for Proposal for draw style games and related services and instant tickets and related services, respectively.

**Non-Direct Expenses**

- Non-direct expenses are budgeted at **\$34.3 million** or **2.2%** of Gross Sales.
  - Advertising expenses are budgeted at **\$ 10.4 million**.
  - Other Gaming expenses are budgeted at **\$ 3.7 million**.
  - General and Administrative expenses are budgeted at **\$ 20.2 million**.



**TENNESSEE EDUCATION LOTTERY CORPORATION  
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**



**Lottery for Education Proceeds**

- \$90.2 million as of 9/30/2016
- \$84.6 million as of 9/30/2015

**Projected Fiscal Year 2017**

\$356 million - \$366 million

**After-School Program Proceeds**

- \$3.4 million as of 9/30/2016
- \$1.4 million as of 9/30/2015
- Represents actual/realized unclaimed monies
- Significantly impacted by:
  - 1) timing of instant games' closings
  - 2) large drawing-style game prizes not claimed

**Projected Fiscal Year 2017**

\$12- 13 million

**TENNESSEE EDUCATION LOTTERY CORPORATION**  
**ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

	<b>FY 17</b>	<b>FY 17</b>	<b>FY 17</b>	<b>FY 17</b>	
	<b>Actuals at</b>	<b>Low</b>	<b>High</b>	<b>Approved</b>	<b>FY 2016</b>
	<b>09/30/16</b>	<b>Projections</b>	<b>Projections</b>	<b>Budget</b>	<b>Actuals</b>
Instant Ticket Sales	\$ 304,435,000	\$ 1,305,000,000	\$ 1,330,500,000	\$ 1,295,000,000	\$ 1,304,479,000
Tennessee Only	27,520,000	112,942,000	117,995,000	113,600,000	113,997,000
Multi Jurisdictional	47,260,000	153,945,000	172,425,000	164,375,000	208,474,000
<b>GROSS TICKET SALES</b>	<b>\$ 379,215,000</b>	<b>\$ 1,571,887,000</b>	<b>\$ 1,620,920,000</b>	<b>\$ 1,572,975,000</b>	<b>\$ 1,626,950,000</b>
Less: Tickets Provided as Prizes	\$ (26,699,000)	\$ (114,923,000)	\$ (117,325,000)	\$ (114,038,000)	\$ (115,092,000)
<b>Net Ticket Sales</b>	<b>\$ 352,516,000</b>	<b>\$ 1,456,964,000</b>	<b>\$ 1,503,595,000</b>	<b>\$ 1,458,937,000</b>	<b>\$ 1,511,858,000</b>
<b>Other Revenue</b>	<b>989,000</b>	<b>3,587,000</b>	<b>3,587,000</b>	<b>3,587,000</b>	<b>3,693,000</b>
<b>TOTAL LOTTERY PROCEEDS</b>	<b>\$ 353,505,000</b>	<b>\$ 1,460,551,000</b>	<b>\$ 1,507,182,000</b>	<b>\$ 1,462,524,000</b>	<b>\$ 1,515,551,000</b>
<b>DIRECT EXPENSES</b>					
Prize Expense	224,972,000	938,741,000	970,753,000	937,723,000	965,989,000
Retailer Commissions	24,744,000	102,560,000	105,755,000	102,617,000	106,145,000
Vendor Fees	6,940,000	29,094,000	30,190,000	29,097,000	29,812,000
<b>Direct Expense</b>	<b>\$ 256,656,000</b>	<b>\$ 1,070,395,000</b>	<b>\$ 1,106,698,000</b>	<b>\$ 1,069,437,000</b>	<b>\$ 1,101,946,000</b>
<b>NON-DIRECT EXPENSE</b>					
Advertising	1,854,000	10,439,000	10,439,000	10,439,000	9,317,000
Other Gaming Expenses	900,000	3,709,000	3,709,000	3,709,000	3,634,000
Operating Expenses	3,845,000	20,159,000	20,159,000	20,159,000	18,192,000
<b>Non-Direct Expenses</b>	<b>\$ 6,599,000</b>	<b>\$ 34,307,000</b>	<b>\$ 34,307,000</b>	<b>\$ 34,307,000</b>	<b>\$ 31,143,000</b>
<b>TOTAL EXPENSES</b>	<b>\$ 263,255,000</b>	<b>\$ 1,104,702,000</b>	<b>\$ 1,141,005,000</b>	<b>\$ 1,103,744,000</b>	<b>\$ 1,133,089,000</b>
<b>LOTTERY FOR EDUCATION PROCEEDS</b>	<b>\$ 90,250,000</b>	<b>\$ 355,849,000</b>	<b>\$ 366,177,000</b>	<b>\$ 358,780,000</b>	<b>\$ 382,462,000</b>
<b>AFTER SCHOOL PROGRAMS</b>	<b>\$ 3,422,000</b>	<b>\$ 12,000,000</b>	<b>\$ 13,000,000</b>	<b>\$ 12,500,000</b>	<b>\$ 11,587,000</b>

**TENNESSEE EDUCATION LOTTERY CORPORATION  
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

**FISCAL YEARS ENDING JUNE 30, 2017, 2018, 2019 and 2020**

		Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021
Total Lottery Revenues		\$1,609 - \$1,671 Million	\$1,640 - \$1,707 Million	\$1,671 - \$1,738 Million	\$1,702 - \$1,769 Million
Lottery for Education Proceeds		\$362-\$376 Million	\$369-\$384 Million	\$376-\$391 Million	\$383-\$398 Million
After-School Programs		\$14 - \$15 Million	\$15 - \$16 Million	\$15 - \$16 Million	\$15 - \$16 Million

**Lottery for Education Proceeds**

Over the last five (5) fiscal years, TEL's average annual Lottery for Education Proceeds growth was 3.2 % compared to the lottery industry's beneficiary funding growth of 1.1%, adjusted for fiscal year anomalies.

We currently project Lottery for Education Proceeds growth in Fiscal Years 2018, 2019, 2020 and 2021 to average between 2% and 2.5% annually.

**After-School Programs Proceeds**

After-School Programs Proceeds are projected based on the five-year historical unclaimed prize experience of slightly less than 1.6% of prize expense, excluding the highest and lowest growth years to adjust for anomalies.